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P 291419Z MAR 94  
FM AMEMBASSY BOGOTA  
TO SECSTATE WASHDC PRIORITY 8446  
INFO AMEMBASSY CARACAS  
AMEMBASSY QUITO  
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E.O. 12356: NA  
TAGS: EPET, EINV, EMIN, ENRG, EFIN, CO  
SUBJECT: OIL COMPANIES DISCUSS GOC'S INVESTMENT CLIMATE  
FOR THE PETROLEUM INDUSTRY (CAL300981)

REF: A) BOGOTA 4417; B) 93 BOGOTA 10182

1. SUMMARY THE AMBASSADOR HOSTED THE SECOND PETROLEUM  
ROUNDTABLE FOR FOREIGN OIL COMPANIES OPERATING IN  
COLOMBIA ON MARCH 11. COMPANY REPS REPORTED THAT  
CONDITIONS AFFECTING THEIR PROFITABILITY (THE HIGH GOC  
TAKE ON PETROLEUM REVENUES, ENVIRONMENTAL REGULATION  
SNAGS AND SECURITY) HAD NOT CHANGED SIGNIFICANTLY SINCE

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UNITED STATES DEPARTMENT OF STATE  
REVIEW AUTHORITY: OSCAR J. OLSON  
DATE/CASE ID: 5 NOV 2002 200201334

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THE FIRST ROUNDTABLE IN JUNE 1993. HOWEVER MINUTES BEFORE THE END OF THE MEETING IT WAS LEARNED THAT ECOPETROL WILL MODIFY ITS 20-YEAR OLD ASSOCIATION CONTRACT SYSTEM IN AN ATTEMPT TO ATTRACT NEW COMPANIES TO EXPLORE SOME 37,500 SQUARE KILOMETERS OF LAND. NO CHANGE IN THE TAX STRUCTURE FOR PETROLEUM COMPANIES IS IMMINENT. THE MINISTER OF MINES HAS ANNOUNCED A CHANGE THAT SHOULD SPEED UP PROCESSING OF ENVIRONMENTAL PERMIT REQUESTS. IT IS NOT CERTAIN IF THE MODIFICATIONS ANNOUNCED BY THE GOC WILL SUCCEED IN BRINGING NEW EXPLORATION RISK CAPITAL TO COLOMBIA. END SUMMARY

2. THE AMBASSADOR HOSTED THE SECOND PETROLEUM ROUNDTABLE MEETING WITH REPRESENTATIVES OF A DOZEN PETROLEUM EXPLORATION AND SERVICE COMPANIES ON MARCH 10 AT THE AMCHAM TO HEAR FIRSTHAND THE CURRENT STATUS OF THE PETROLEUM INVESTMENT CLIMATE IN COLOMBIA. AMONG THOSE ATTENDING THE DISCUSSION WERE EMBASSY OFFICERS AND

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THREE EXIM BANK OFFICERS VISITING COLOMBIA. THE FIRST PETROLEUM ROUNDTABLE WAS HELD IN JUNE 1993 (SEE REF B).

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CURRENT CONDITIONS  
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3. THE AMBASSADOR BEGAN THE DISCUSSIONS BY SAYING THAT THE EMBASSY HAD NOT FORGOTTEN THE CONCERNS THE INDUSTRY REPRESENTATIVES RAISED LAST YEAR (THE HIGH GOC TAKE ON PETROLEUM REVENUES, ENVIRONMENTAL REGULATION SNAGS AND SECURITY). HE SAID HE HAD BROUGHT UP THESE MATTERS IN MEETINGS WITH PRESIDENT GAVIRIA AND THE MINISTERS OF TRADE, DEVELOPMENT AND FOREIGN AFFAIRS. HE ASKED IF THE SITUATION HAD IMPROVED IN THE NINE MONTHS SINCE THE LAST MEETING. THE EXXON REPRESENTATIVE COMMENTED THAT THE GOC'S TAKE OF OIL PROCEEDS HAD NOT CHANGED, ALTHOUGH THE GOC WAS ACUTELY AWARE THAT THE TAKE WAS DISCOURAGING FOREIGN COMPANIES FROM LOOKING TO COLOMBIA FOR NEW EXPLORATION. HE COMMENTED THAT THE TAX COMPONENT OF THE TAKE WOULD LIKELY REMAIN UNCHANGED DURING THE REMAINING FIVE MONTHS OF THE GAVIRIA ADMINISTRATION SINCE CONGRESSIONAL ACTION WOULD BE REQUIRED TO CHANGE IT. PETROLEUM TAXES MIGHT BE ADDRESSED BY THE SUCCESSOR ADMINISTRATION, HE ADDED, BUT EASING THE TAX BURDEN FOR FOREIGN OIL COMPANIES IS A SUBJECT FEW COLOMBIAN

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POLITICIANS HAVE MUCH INTEREST IN ADDRESSING.

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ECOPETROL TO TRY TO ATTRACT NEW EXPLORATION COMPANIES  
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4. THE OIL REPS SAID THAT ECOPETROL WILL BE IN HOUSTON AND A FEW OTHER CITIES IN THE U.S. AND EUROPE IN APRIL TO TRY TO ATTRACT OIL EXPLORATION COMPANIES TO BID ON A NUMBER OF NEW BLOCKS OF POTENTIALLY OIL-RICH LAND. THE OILMEN WERE UNANIMOUS IN THEIR BELIEF THAT A STRONG NEGATIVE RESPONSE TO ECOPETROL'S SOLICITATION OF OFFERS IS CRUCIAL TO THE LONG TERM HEALTH OF THE PETROLEUM INDUSTRY IN COLOMBIA. THE TOTAL OIL REP (FRANCE) SAID THAT COMPANIES SHOULD NOT RESPOND AT ALL TO THE

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SOLICITATION IN ORDER TO "SHOCK" THE GOC INTO  
REEXAMINING ITS PETROLEUM POLICIES. NO ONE AGREED WITH  
THIS AND THE EXXON REP SAID THE REALITY WAS THAT  
COMPANIES WILL RESPOND TO THE PROPOSAL IN ORDER TO GET A  
FOOT IN THE DOOR OF THE COLOMBIAN MARKET, GAMBLING THAT  
THE SITUATION REGARDING TAXES, CONTRACTUAL RESTRICTIONS  
AND GUERRILLA VIOLENCE WILL IMPROVE OVER THE NEXT COUPLE  
OF YEARS.

5. MOST REPS AGREED THAT ECOPETROL MUST MODIFY THE  
EXISTING ASSOCIATION CONTRACT STRUCTURE IF IT IS TO BE  
SUCCESSFUL IN ATTRACTING NEW EXPLORATION COMPANIES. ONE  
REPRESENTATIVE OF SEVERAL SMALL EXPLORATION COMPANIES  
SAID THAT COLOMBIA MUST ALLOW RECOVERY OF 100 PERCENT OF  
EXPLORATION COSTS, ESPECIALLY IN SMALL FIELDS. THE  
TEXACO REPRESENTATIVE COMPLEMENTED THE GOC FOR BEING  
SCRUPULOUS IN ADHERING TO ITS CONTRACTS WITH FOREIGN OIL  
COMPANIES. HOWEVER, HE POINTED OUT THAT ALL OIL  
EXPLORATION COMPANIES USE A NET PRESENT VALUE FORMULA TO  
DECIDE WHERE TO INVEST THEIR GLOBAL EXPLORATION BUDGETS,  
AND THAT COLOMBIA'S HIGH TAKE OF REVENUES HAS ALMOST PUT  
IT OUT OF THE RUNNING. COMPANIES WOULD RATHER INVEST IN  
RUSSIA, CHINA OR ARGENTINA, HE SAID.

6. THE OIL SECTOR AGREED THAT ONE IMPORTANT STEP  
ECOPETROL COULD TAKE TO IMPROVE THE INVESTMENT CLIMATE  
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WAS TO ADJUST ITS ASSOCIATION CONTRACT SCHEME TO VARY  
THE GOC'S TAKE ACCORDING TO FIELD SIZE. RIGHT NOW THE

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DISCOVERY OF SMALL FIELDS (LESS THAN 25 MILLION BARRELS) IS NOT PROFITABLE. THE HERITAGE OIL COMPANY REP STATED THAT ABOUT 80% OF RESERVES IN THE U.S. ARE FOUND IN SUCH FIELDS. HE ADDED THAT THE CURRENT RULES GOVERNING OIL EXPLORATION/EXPLOITATION IN COLOMBIA REWARDS ONLY THOSE WHO DISCOVER LARGE FIELDS LIKE CUSIANA AND CANO LIMON. THE OILMEN ALSO SAID THAT ECOPETROL HAS RESERVED FOR ITS EXCLUSIVE EXPLORATION VAST TRACTS OF PROMISING LAND. GIVEN THE COMPANY'S NEARLY TOTAL ABSORPTION WITH THE DEVELOPMENT OF THE CUSIANA PROJECT, THE OIL COMPANIES SAID IT WAS HIGH TIME THE GOC OPENS EXPLORATION OF THESE TRACTS TO PRIVATE COMPANIES.

## ----- SECURITY -----

7. THE AMBASSADOR SAID THAT HE DID NOT THINK THAT THE SECURITY SITUATION WOULD CHANGE IN THE SHORT RUN FOR TWO REASONS: THE GOC DOES NOT POSSESS THE OVERWHELMING MILITARY POWER THAT WOULD ENABLE IT TO DICTATE TERMS TO THE GUERRILLAS, AND A NEGOTIATED SOLUTION IS NOT IN THE CARDS BECAUSE THE GUERRILLA SIDE IS NOT INTERESTED IN SERIOUS TALKS. HE ADDED THAT THE NEW ADMINISTRATION WOULD BE MAKING A MISTAKE IF IT OPTED TO OPEN NEGOTIATIONS WITH THE GUERRILLAS BECAUSE THE GUERRILLAS WOULD USE THEM TO REGROUP AND TO REARM. THE GUERRILLAS, HE CONCLUDED, POSE NO CREDIBLE THREAT TO THE GOC AT ALL. RATHER THEY ARE PRACTITIONERS OF LARGE,  
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WELL-ORGANIZED BANDITRY THAT RELIES ON EXTORTION,  
KIDNAPPING AND NARCOTICS TRAFFICKING.

8. THE EXXON REP SAID THAT THE SECURITY SITUATION IN COLOMBIA IS AS BIG A DETERRENT TO POTENTIAL PETROLEUM INVESTORS AS IS THE COUNTRY'S TAKE ON PETROLEUM REVENUES. HE OPINED THAT THE GUERRILLA PROBLEM IN COLOMBIA IS DRIVEN BY ECONOMIC FORCES, NOT POLITICAL IDEOLOGY. A SOLUTION WILL NOT COME, HE SAID, FROM A POLITICAL DIALOGUE BETWEEN THE GOC AND THE GUERRILLAS; IT WILL COME WHEN THE GOC IS ABLE TO OFFER THE GUERRILLAS AND THEIR SUPPORTERS A BETTER LIVELIHOOD THAN THEY ONE THEY NOW HAVE.

9. THE EXXON REP SAID THAT HE WAS ENCOURAGED THAT THE

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GOC WAS PUTTING MORE RESOURCES INTO THE ARMY TO COUNTER THE GUERRILLA THREAT. AS IMPORTANT AS THE INCREASE IN RESOURCES, HE STRESSED, IS THE CIVILIAN MINISTER OF DEFENSE, WHO HAS MADE CONSIDERABLE STRIDES IN CUTTING RED TAPE WHICH HAD REDUCED THE EFFECTIVENESS OF THE ARMED FORCES. THE AMBASSADOR POINTED OUT THAT THE

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GAVIRIA GOVERNMENT IS BORROWING MONEY FROM THE FUTURE TO PUT INTO THE MILITARY TODAY, AND THAT IT HAS USED THOSE FUNDS TO COPE WITH INTERNAL, NOT EXTERNAL, THREATS TO THE NATION. ONE RESULT OF THAT, HE SAID, IS THE NUMBER OF PROFESSIONAL SOLDIERS IN COLOMBIA: THREE YEARS AGO THERE WERE 3,000, NOW THERE ARE 26,000.

10. SEVERAL OF THE OIL FIRM REPS COMPLAINED OF THE DIFFICULTY THEY EXPERIENCE IN CONDUCTING OPERATIONS IN THE LLANOS REGION OF THE COUNTRY. ONE SAID A DRILLING RIG HAD BEEN STRANDED FOR FIVE DAYS WHEN LOCALS DEMANDED THE OIL COMPANY PAVE 80 KM OF ROAD IN EXCHANGE FOR ALLOWING THE RIG TO PROCEED TO ITS DESTINATION. WHEN HE NOTIFIED THE POLICE AND THE ARMY OF THE PROBLEM, THEY REPLIED THERE WAS NOTHING THEY COULD DO. ANOTHER REP CLAIMED HIS COMPANY PROVIDED PENCILS AND PAPER TO LOCAL MUNICIPALITIES IN HOPES THAT THE OFFERINGS WOULD KEEP THE GUERRILLAS AT BAY.

11. THE OCCIDENTAL PETROLEUM REP SAID THE DEPARTMENT OF ARAUCA, WHERE OXY OPERATES THE LARGE CANO LIMON FIELD, "IS IN A TOTAL STATE OF WAR." HE SAID THAT SINCE CANO LIMON COMMENCED OPERATIONS IN THE MID-1980S THERE HAVE BEEN 327 ATTACKS ON THE PIPELINE THAT LINK IT TO THE CARIBBEAN PORT OF COVENAS. A WORRISOME DEVELOPMENT WAS THE GUERRILLA ATTACK ON FOUR OIL WELLS IN EARLY 1994 AND  
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THE THEFT OF FOUR VEHICLES FROM THE EXPERIMENTAL FARM THAT OXY SUPPORTS IN ARAUCA, BOTH UNPRECEDENTED. THE OXY REP SAID THAT A BIG PROBLEM IS THAT LOCAL MUNICIPALITIES THAT RECEIVE FUNDS EITHER DIRECTLY FROM THE COMPANIES THEMSELVES, OR INDIRECTLY THROUGH ROYALTY PAYMENTS, DO NOT KNOW HOW TO MANAGE MONEY. HE POINTED TO THE CITY OF ARAUCA, NOT FAR FROM CANO LIMON, WHICH HE SAID HAS A "WAVE POOL" BUT NOT A DECENT HOSPITAL. AND MATTERS WILL GET WORSE, HE STRESSED, BECAUSE BOTH OXY AND ITS EMPLOYEES MUST MAKE NEWLY MANDATED SOCIAL SECURITY CONTRIBUTIONS TO THE MUNICIPALITY WHERE THERE IS NOT YET EVEN A SOCIAL SECURITY OFFICE.

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PRIVATE OIL COMPANY ORGANIZATION

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12. THE AMBASSADOR REPEATED THE RECOMMENDATION HE MADE AT THE FIRST ROUNDTABLE THAT THE OIL COMPANIES TAKE THE INITIATIVE IN LOBBYING BEFORE THE GOC FOR EQUITABLE TREATMENT. HE SUGGESTED THAT THEY ADOPT A HIGHER PROFILE WITH THE GOVERNMENT, AND THAT THEY BEGIN MAKING CONTACTS WITH THE CAMPAIGNS OF THE TWO PRINCIPAL PRESIDENTIAL CANDIDATES. ITS NOT TOO SOON, HE ARGUED, TO BEGIN TO LET PROSPECTIVE MINISTERS IN THE NEXT GOVERNMENT KNOW OF THEIR CONCERNS BEFORE TODAY'S CAMPAIGN PROMISES ARE TRANSFORMED INTO TOMORROW'S LAWS. THE AMBASSADOR PROMISED THAT THE EMBASSY WOULD ASSIST THE OIL COMPANIES WHENEVER IT COULD.

13. THE OILMEN EXPRESSED THANKS FOR THE OFFER OF HELP  
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AND SAID THEY AGREED THAT THEY HAD TO BE MORE ASSERTIVE AND NEEDED TO ASSUME A HIGHER PROFILE. THEY SAID THEY HAD TAKEN STEPS IN THAT DIRECTION ALREADY. THEY RENAMED THEIR ORGANIZATION THE COLOMBIAN ASSOCIATION OF PETROLEUM COMPANIES (IT WAS CALLED THE INFORMATION CENTER OF THE PETROLEUM INDUSTRY FORMERLY), INSTALLED A NEW EXECUTIVE DIRECTOR AND BOOSTED THE BUDGET. THEY ALSO SET UP A NEW WORKING GROUP TO WORK DIRECTLY WITH THE ENVIRONMENT MINISTRY TO EXPEDITE ISSUANCE OF PERMITS FOR PETROLEUM OPERATIONS. THE PRESIDENT OF THE ASSOCIATION IS THE PRESIDENT OF OXY OPERATIONS IN COLOMBIA.

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ENVIRONMENTAL CONTROLS  
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14. THE OILMEN WERE CAUTIOUSLY OPTIMISTIC THAT THE CREATION OF THE MINISTRY OF THE ENVIRONMENT AT THE BEGINNING OF THIS YEAR WILL EVENTUALLY REDUCE THE SNAGS AND CONFUSION THEY ENCOUNTER WHEN SEEKING ENVIRONMENTAL

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GO-AHEADS. THE EXXON REP SAID THE ENVIRONMENTAL  
 MINISTER, MANUEL RODRIGUEZ, IS A VERY REASONABLE MAN  
 WHOSE "HEART IN THE RIGHT PLACE." BUT, HE CONTINUED,  
 THE MINISTRY IS TRYING TO OPERATE ON A SHOESTRING.  
 SEVERAL OF THE REPS SAID THEY HAD OFFERED ASSISTANCE TO  
 THE MINISTRY, AND ITS PREDECESSOR, INDERENA, BUT THAT  
 THEY WALKED A FINE LINE BETWEEN BEING SEEN AS  
 BENEFACTORS TRYING TO MAKE THE ORGANIZATION WORK MORE  
 EFFICIENTLY, ON THE ONE HAND, AND AS ROBBER BARONS  
 BUYING UP ENVIRONMENTAL PERMITS ON THE OTHER.

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## ----- LATE BREAKING NEWS -----

15. A FEW MINUTES BEFORE THE ROUNDTABLE CONCLUDED THE OXY REP JOINED HIS COLLEAGUES. HE HAD JUST COME FROM ECOPETROL WHERE HE HAD BEEN BRIEFED ABOUT PROPOSED CHANGES TO THE ASSOCIATION CONTRACT SYSTEM WHICH ECOPETROL HAS USED SINCE 1974. THE MODIFICATIONS, WHICH WILL NOT BE RETROACTIVE, ARE PART OF THE GOC'S ATTEMPT TO ENTICE NEW COMPANIES TO RESPOND TO THE SEMINARS IT WILL BE CONDUCTING NEXT MONTH (SEE PARA 17). THEY WILL INCLUDE ADJUSTING THE GOC'S TAKE FROM OIL DISCOVERIES ACCORDING TO A FORMULA THAT WILL FACTOR IN SUCH ELEMENTS AS WORLD OIL PRICES, FIELD SIZE, QUALITY OF CRUDE AND  
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THE DISTANCE BETWEEN THE FIELD AND THE REFINERY OR EXPORT TERMINAL. ECOPETROL WILL ALSO CONSIDER SHARING FULLY EXPLORATION COSTS. THE FORMER SYSTEM SAW ECOPETROL SHARING COSTS ONLY AFTER A FIELD WAS DECLARED COMMERCIAL. AN ADDITIONAL SWEETNER IS ECOPETROL'S DECISION TO REDUCE PIPELINE TARIFFS BY UP TO 50 PERCENT.

16. THE OXY REP WAS DISAPPOINTED THAT MODIFICATIONS OF TAXES ON PETROLEUM OPERATIONS WAS NOT ON THE AGENDA AT HIS ECOPETROL BRIEFING. TAXES, HE STRESSED, WAS ON THE TOP OF THE LIST OF IMPROVEMENTS THE ASSOCIATION HAD SOUGHT FROM GOC AUTHORITIES. HE SAID HIS ECOPETROL INTERLOCUTORS TOLD HIM THEY HAD DONE THEIR BIT, AND NOW IT WAS TIME FOR FINANCE MINISTER HOMMES TO DO HIS. BUT, THE CONSENSUS AT ECOPETROL IS THAT HOMMES HAS NO INTENTION OF REDUCING HIS CURRENT INCOME LEVEL.

## ----- SUBSEQUENT DEVELOPMENTS -----

17. LAST WEEK THE AMBASSADOR RECEIVED A LETTER FROM ECOPETROL GIVING DETAILS OF ITS PLAN TO SOLICIT BIDS ON 28 BLOCKS OF LAND COVERING 37,800 SQUARE KILOMETERS (SEE REF A).

18. BOGOTA NEWSPAPERS ON MARCH 19 CARRIED STORIES ABOUT THE MODIFICATION OF ECOPETROL'S ASSOCIATION CONTRACTS, ECHOING THE COMMENTS MADE BY THE OXY REP AT THE

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ROUNDTABLE (SEE PARA 15). THE PRESS REPORTED THAT  
MINISTER OF MINES AND ENERGY, GUIDO NULE, WOULD SEEK  
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ELIMINATION OF THE USD 1/BARREL "WAR TAX" AFTER THE NEXT  
ADMINISTRATION TAKES OFFICE IN AUGUST. NULE ALSO SAID  
THAT A NEW ENVIRONMENTAL MANAGEMENT UNIT WOULD BE  
CREATED TO CONSIDER PETROLEUM INDUSTRY REQUESTS FOR  
ENVIRONMENTAL PERMITS WHICH, HE SAID, WILL CONTRIBUTE TO  
SPEEDY DECISIONS. EMBASSY WILL REPORT FULLY ON THE  
CONTRACT MODIFICATIONS AS SOON AS SOURCE DOCUMENTATION  
IS RECEIVED FROM ECOPETROL.

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COMMENT  
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19. THE MODIFICATIONS TO ECOPETROL'S 20-YEAR OLD  
ASSOCIATION CONTRACT SYSTEM WERE LONG OVERDUE. THE  
CHANGES CAME AFTER GOC OFFICIALS COMPLETED A LENGTHY  
REVIEW OF A U.N. STUDY COMMISSIONED TO EVALUATE  
COLOMBIA'S COMPETITIVENESS IN THE GLOBAL PETROLEUM  
EXPLORATION MARKET. THAT STUDY FOUND THAT COLOMBIA WAS  
OUT OF STEP WITH GLOBAL TRENDS, WHICH FOR THE PAST TWO  
YEARS HAVE WITNESSED OTHER COUNTRIES MAKING SIGNIFICANT

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ACTION EB-01

INFO	LOG-00	ACDA-17	ACDE-00	AGRE-00	AID-01	ARA-01	CEA-01
	CEQ-00	CIAE-00	COME-00	CTME-00	C-01	OASY-00	DINT-01
	DODE-00	EUR-01	EXIM-01	E-01	FRB-01	HA-09	H-01
	TEDE-00	INR-00	ITC-01	LAB-01	L-01	ADS-00	NSAE-00
	NSCE-00	OES-09	OMB-01	OPIC-01	PM-01	PRS-01	SNP-00
	SP-00	SS-00	STR-01	USIE-00	EPAE-00	PMB-00	/054W

-----359450 291424Z /38

P 291419Z MAR 94  
FM AMEMBASSY BOGOTA  
TO SECSTATE WASHDC PRIORITY 8450  
INFO AMEMBASSY CARACAS

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AMEMBASSY QUITO  
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AMEMBASSY PARIS  
DEPT OF ENERGY WASHINGTON DC  
DEPT OF TREASURY WASHINGTON DC

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DEPT PLEASE PASS OPIC FOR EDIE QUINTRELL  
DEPT PLEASE PASS EXIMBANK FOR STEVE HOWLETT  
USDOC FOR 4331/IEP/OLA/AND/PAUL MOORE  
USDOC FOR 6340/ITA/BI/ENERGY/JYANCIK  
USDOE FOR GARY WARD

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E.O. 12356: NA  
TAGS: EPET, EINV, EMIN, ENRG, EFIN, CO  
SUBJECT: OIL COMPANIES DISCUSS GOC'S INVESTMENT CLIMATE  
FOR THE PETROLEUM INDUSTRY (CAL300981)

IMPROVEMENTS IN CONTRACT TERMS FOR POTENTIAL FOREIGN  
EXPLORATION COMPANIES. IT IS NOT AT ALL CERTAIN THAT  
THE CHANGES IN THE ASSOCIATION CONTRACT SYSTEM THUS FAR  
ANNOUNCED WILL BE ENOUGH TO GUARANTEE THE SUCCESS OF  
ECOPETROL'S QUEST FOR NEW EXPLORATION CAPITAL.  
COLOMBIA'S ONEROUS TAX STRUCTURE FOR PETROLEUM COMPANIES  
REMAINS UNCHANGED WHILE THE THREAT FROM GUERRILLA FORCES  
SHOWS NO SIGN OF ABATING IN THE NEAR TERM.

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